

Unit 8 - Audit Reporting

Mr. Nilantha Weerasinghe

Types of Audit Reports

01. Non-standard audit reports

A non-standard audit report is one that contains:

- A modified opinion
- An "emphasis of matter" or an "other matter" paragraph.

A modified opinion is given because of

- A misstatement about the treatment or disclosure of a matter in the financial and/or non-financial information
- A limitation in scope. This may occur when the appointed auditor has been unable to obtain sufficient appropriate evidence to support, and accordingly is unable to express, an opinion on the financial or non-financial information or a part of the financial or non-financial information.

There are three types of modified opinion (which are discussed below):

- An "adverse" opinion
- A "disclaimer of opinion"
- A "qualified opinion"

The appointed auditor will include an "emphasis of matter" paragraph or "other matter" paragraph in the audit report to draw attention to matters such as,

- Fundamental uncertainties
- Breaches of law
- Concerns over probity or financial prudence.

The appointed auditor has to include an "emphasis of matter" paragraph or an "other matter" paragraph in the audit report in such a way that it cannot be mistaken for a modified opinion.

02. Non-standard audit reports

An adverse opinion is the most serious type of non-standard audit report.

An adverse opinion is expressed when the appointed auditor, having obtained sufficient appropriate audit evidence, concludes that misstatements, individually or in the aggregate, are both material and pervasive to the financial and/or non-financial information.

The worst type of financial report that can be issued to a business is an adverse opinion. This indicates that the firm's financial records do not conform to GAAP. In addition, the financial records provided by the business have been grossly misrepresented. Although this may occur by error, it is often an indication of fraud. When this type of report is issued, a company must correct its financial statement and have it re-audited, as investors, lenders and other requesting parties will generally not accept it.

03. Disclaimers of opinion

On some occasions, an auditor is unable to complete an accurate audit report. This may occur for a variety of reasons, such as an absence of appropriate financial records. When this happens, the auditor issues a disclaimer of opinion, stating that an opinion of the firm's financial status could not be determined.

A disclaimer of opinion is expressed when the appointed auditor is unable to obtain sufficient appropriate audit evidence on which to base the opinion (that is, a limitation in scope), and the appointed auditor concludes that the possible effects on the financial and/or non-financial information of undetected misstatements, if any, could be both material and pervasive.

A disclaimer of opinion is also expressed when, in extremely rare circumstances involving multiple uncertainties, the appointed auditor concludes that, notwithstanding having obtained sufficient appropriate audit evidence regarding each of the individual uncertainties, it is not possible to form an opinion on the financial statements and/or non-financial performance information because of the potential interaction of the uncertainties and their possible cumulative effect on the financial and/or non-financial information.

04. Qualified opinions

A qualified opinion is expressed when the appointed auditor, having obtained sufficient appropriate audit evidence, concludes that misstatements, individually or in aggregate, are material, but not pervasive, to the financial and/or non-financial information

In situations when a company's financial records have not been maintained in accordance with GAAP but no misrepresentations are identified, an auditor will issue a qualified opinion. The writing of a qualified opinion is extremely similar to that of an unqualified opinion. A qualified opinion, however, will include an additional paragraph that highlights the reason why the audit report is not unqualified

A qualified opinion is also expressed when the appointed auditor is unable to obtain sufficient appropriate audit evidence on which to base the opinion, but the appointed auditor concludes that the possible effects on the financial and/or non-financial information of undetected misstatements, if any, could be material but not pervasive.

05. "Emphasis of matter" paragraphs

In certain circumstances, it may be appropriate for the appointed auditor to include additional comments in the audit report to draw readers' attention to a matter that, in the appointed auditor's professional judgement, is fundamental to their understanding of the financial and/or non-financial information. The additional comments will be included in the audit report in an "emphasis of matter" paragraph, provided the appointed auditor has obtained sufficient

appropriate audit evidence that the matter is not materially misstated in the financial and/or non-financial information.

06. "Other matter" paragraphs

In certain circumstances, it may be appropriate for the appointed auditor to communicate a matter that is not adequately presented or disclosed in the financial and/or non-financial information because, in the appointed auditor's professional judgement, the matter is relevant to readers' understanding of the financial and/or non-financial information. The additional comments will be included in the audit report in an "other matter" or similarly titled paragraph.

Deciding on the appropriate form of the audit report

